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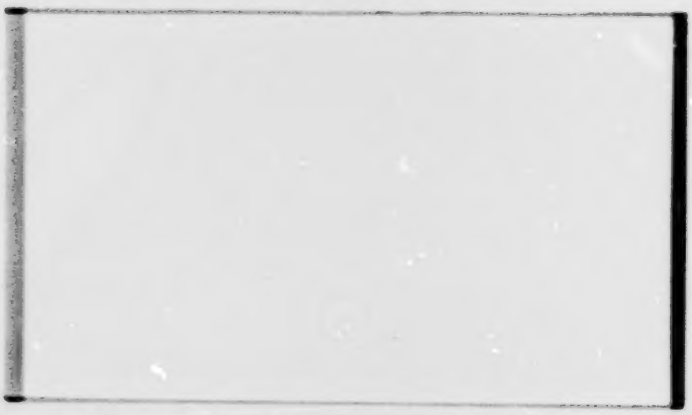

A participant in
the United Way

Submission

to the
Royal Commission on
the Economic Union and
Development Prospects
for Canada

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PREFACE

The Social Planning Council submitted its first brief, Democracy, Equality and Canada's Economic Future, to the Royal Commission in November 1983. In it the Council set forth what it felt were the main challenges to the Royal Commission and to Canada's future. These were in the areas of jobs and incomes, adjusting to changes in the economy, efficiency and equity in Canada's social programs and policies and government institutions, particularly the role of government, workers and communities in Canadian society. Messrs. Leon Muszynski, Jeffrey Patterson and David Wolfe formally presented this brief to the Commission on December 2, 1983.

The objective of this brief, having reviewed the Royal Commission's interim report, Challenges and Choices, and participated in the three days of seminars held in Toronto, June 26 - 28, 1984, is to recommend future directions in each of the above areas. This brief addresses "the appropriate national goals and policies for economic development," the central item in the Royal Commission's terms of reference.

Economic Policy Goals

1. Economic policy is not irrevocably imposed by external events or existing social, political and economic realities. We choose our policies as a society. Whether choices are good or bad depends not only on how well the constraints and possibilities of reality have been taken into account, but also on the values which shape these choices. The central issue to be addressed is the values that guide policy-making. Our societal objective must be to go beyond minimizing the human burden to individuals, families, communities and regions, as the question was put in the Royal Commission's brochure, "A Commission on Canada's Future: be part of its economic potential, prospects and challenges." We must address the broader question of how we are to maximize the human benefits from economic development. This is the primary objective of the current brief.

2. The following are essential elements of well-being for individuals in our society, and they have critical relevance to economic policy-making:

- health
- basic employment and economic security
- social solidarity
- freedom and social justice
- fulfillment for self and community.

It is in the context of these goals that the appropriateness of economic policies must be assessed.

3. The following make up a set of instrumental objectives meant to fulfill the above well-being goals. They parallel the original objectives specified at the time of the founding of the Economic Council of Canada, although their substance varies substantially from those objectives:

a) the provision of opportunities for all Canadians to find self-fulfillment, including importantly through remunerative work;

b) equality of such opportunities, especially equality for disadvantaged groups;

c) assistance to individuals who, for various reasons are hindered or prevented from availing themselves of the opportunities open to the majority;

d) the minimization of unemployment and the elimination of long-term unemployment;

e) assurance that the basic material needs of individuals and families will be met (prevention of poverty);

f) equal access to health care of a quality that is commensurate with Canada's level of affluence;

g) the protection of the quality of the physical environment;

h) the prevention of social stigmatization;

i) the provision of basic security regarding the physical safety, quality of life and social roles of individuals;

j) the protection of communities against economic disruption;

k) assistance to individuals and communities to adapt to economic, cultural and social change;

l) the democratization of decision-making in all spheres of society, including the business sector, and

m) the promotion of social solidarity amongst individuals, social groups and regions.

Employment

4. The social and economic costs of continued high unemployment, including the disenfranchisement and loss of status of a larger and

larger portion of Canada's citizenry, are simply too high to be endured.[1] Full employment must be the first priority of overall government fiscal and monetary policies in the long-term.

5. We do not accept the notion that inflation (or "costs" as it has been put by the Commission) and employment should be traded off in the long-term. Long-term trade-offs do not exist in economic theory, and even if they did, we doubt that the Canadian public would approve of high unemployment on a long-term basis.

6. The historical evidence is that Canada has done much better at fighting inflation than maintaining jobs. From 1966 to 1973 Canada's average annual rate of inflation was less than both that of the U.S.A. and the "group of seven" major OECD countries.[2] Yet the rate of unemployment was higher than either. More recently Canada has not done a good job of dealing with either fighting inflation or unemployment. From 1974 to 1982 Canada's average annual rate of inflation was two-tenths of a per cent higher than for the group of seven and eight-tenths of a per cent higher than for the U.S.A. The rate of unemployment was a full two points higher than for the group of seven and four-tenths of a per cent higher than for the U.S.A. The 1982 to 1984 period has witnessed a repeat of the experience in the 1974 to 1982 period: sligntly higher inflation and significantly higher unemployment.[3]

7. The severity of the high unemployment cannot be exaggerated. The real level of unemployment is much higher than the nominal rate, and the difference between the real and nominal unemployment rates increases as unemployment increases. For 1983 what the Social Planning Council labels the "real" unemployment rate, which includes discouraged workers

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1. Cf. Social Planning Council of Metropolitan Toronto, Democracy, Equality and Canada's Economic Future, Brief to the Royal Commission on the Economic Union and Development Prospects for Canada (November 1983), pp.5 - 16 for a summary of the economic and social effects of high levels of unemployment.
2. Canada, France, Japan, Italy, United Kingdom, United States, and Western Germany.
3. Canada, Minister of Finance, The Fiscal Plan (February 1984).

and underemployed workers (those with part-time jobs who want full-time jobs), was 40 per cent higher than the official unemployment rate for Canada and 30 per cent higher for Ontario.[4] The official youth unemployment rate for Canada averaged 18.5 per cent for the first four months of 1984. The real rate was almost 50 per cent higher, or 26.5 per cent.[5] The long-term task of Canadian policy makers is to assure that there is full employment in Canada.

8. What is to be done? Government must pursue more expansionary fiscal and monetary policies that accommodate Canada's need for full employment. The more or less continuous recession that has dominated the Canadian economy since 1975, as well as the deep recession experienced in 1982, are largely the result of restrictive monetary policies. Between 1981 and 1984 Canada's money supply expanded much more slowly. Ironically the United States, which is characterized as the world leader in restrictive monetary policy, seems to have pursued a more liberal monetary policy than Canada during the same period.[7]

9. More jobs and full or greater employment will only occur as private and public investment in the economy are increased in real terms. Only a less restrictive monetary policy and lower real interest rates will allow this to happen.

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4. Social Planning Council, Social Infopac, 3.1 (January 1984).

5. Social Planning Council, Communique (June 6, 1984).

6. The Consumer Price Index increased by 23 per cent, while M 1, the most commonly used indicator of money supply, increased by 14 per cent. Cf. Bank of Canada Review (May 1984), Table 9.

7. Federal Reserve Board of New York, Federal Reserve Bulletin (April 1984), Table A13. M 1 in the U.S.A. increased by 27 per cent in this period. This Council is fully aware that there is some controversy over what is the best measure of money supply.

Inflation

10. There seems to exist in Canada a belief that inflation is out of control and that the short-term inflation-employment trade-off results in higher levels of unemployment at every level of inflation. The lack of an institutionalized means to make major joint economic decisions by government, business and labour is often blamed for this state of affairs. The lower unemployment and lower inflation rates of countries such as Austria that possess consultative mechanisms is often cited as a major reason for establishing these mechanisms. Such a view is simplistic. It is simplistic to think that we can create such institutions without basic changes in social policies. Greater equity in Canadian society will proceed the development of such institutions and consultative mechanisms.

11. It is our view that what might be termed "social solidarity" policies are instrumental in eventually producing the social consensus that will allow government, business and labour to collaborate on obtaining Canada's social and economic goals. A commitment to social solidarity presumes that we are all mutually dependent on one another, and that rather than helping the invisible hand of the market place, individual self-interest and egoism often block the achievement of collective welfare.

12. Solidarity means that basic human needs have an equal claim on the national wealth, and that we are all obligated to pay the necessary costs that such a shared responsibility requires. Politically, social solidarity is the key to the welfare state's broad popular support. It is not the level of public spending that receives the sharpest conservative attack, but the notion of social citizenship. Universalism in social policy produces its own universal political constituency, which in turn helps maintain a basic sense of social solidarity and shared responsibility. All citizens are granted identical rights and treatment. Universalism is an attack on both the stigmatizing nature of poor relief and on the self-reliance mechanism of private insurance. To win broad political support universal social programs must be generous, of very high quality and available to all without condition.

Trade and Industrial Development

13. The creation of additional job opportunities for Canadians, the urgent need for strengthening Canada's processing and manufacturing sectors and the need for Canadian products to compete successfully with those of other nations and places requires the Government of Canada to play a much more active role in initiating trade relationships and fostering trading opportunities. A more active role would also allow investments that have large social benefits, such as projects benefitting a particular region and projects that protect the environment, to be adequately considered. It would also spread risks of loss beyond specific enterprises. Other nations have developed successful policies and programs in this respect, and Canada's successful competition with these nations requires that the Government of Canada play a more active role as well. Special attention must be devoted to the needs of each of Canada's regions.

14. This means that both federal and provincial governments should initiate a process of national and regional investment planning and they should consider new means of intervening in the economy to expand employment opportunities.

15. The federal government, in conjunction with the provincial governments, should shift the priority of its economic development strategy toward the creation of technologically innovative and internationally competitive meanufacturing sector. This would require the adoption of sector specific and regionally based industrial development strategies based on the use of such policy instruments as investment planning, investment co-ordination, joint public/private ventures and the use of direct subsidies rather than tax incentives.

Productivity

16. The decline in productivity of the Canadian economy reflects reduced economic activity in Canada. This in turn results from restrictive monetary policies that have been followed since 1975 as from declining

foreign demand for Canadian resources. The pursuance of more expansionist monetary policies will make a significant contribution to increasing the productivity of the Canadian economy. The expansion of trade opportunities would make a significant contribution to increased economic productivity as well. Nor should greater investment in human capital be ignored.

17. The Government of Canada needs to pursue a variety of strategies to assist the development, production and diffusion of new technologies. Private industry, universities and government departments each possess distinctive qualities, and a strategy must make the best use of each of these. Significant progress will also depend on union and worker involvement, especially with respect to the diffusion and application of new technologies.

18. In a society based primarily on individual initiative workers are compelled to seek security through individual wages and wage gains and through protectionist measures. Workers will resist innovation because it results in layoffs or wage cuts. But if society shelters workers and their families against the risk of change, there is no reason why workers should not welcome innovation. Comprehensive income security may improve productivity, make bad jobs into good ones and boost economic growth. The pursuance of growth with equity should eventually result in lower inflation, as well as more jobs.

19. Improved labour-management relations, even if additional legislation does eventually have to be introduced, can only result of voluntary, co-operative efforts on the part of management, labour and government. Larger bargaining units and an improved legal framework for organizing are required.

20. Not only would greater worker participation result in lesser conflict, and the likely result of greater productivity, it would also contribute to the reduction in excessive employee supervision which many studies are now blaming for lower productivity levels.

21. There is little absence of entrepreneurial ability within Canada. Aggregate measures of capital available for investment in Canada also indicate that insufficiency of capital is not likely a reason for low productivity gains in recent years. It is true that capital is not employed to its best advantage. There is also little evidence that the additional incentives for capital investment need to be built into the Canadian corporate or personal income tax system. The Royal Commission on Taxation, reporting in 1969, provided evidence that Canadian corporate income and capital cost allowances for investment in new equipment and plant are second only to those of the United States. The system has been even further liberalized since tax reforms in 1971.

22. If anything, a more direct role for government in capital allocation is indicated. Additional tax revenues from eliminating some of the existing, but not effective, investment incentives, as well as the considerable savings held in the pension system, could provide a base for such investments. Many investments may have longer-term paybacks than the current profit and risk system can accommodate.

Education and Training

23. Direct job creation will be necessary in the short-term to reduce unemployment. In the long-term government will have to intervene more directly in the labour market than at present, employing policies that will facilitate labour market adjustment to economic change, including retraining and mobility programs, as well as increased direct job creation for those unable to find employment in the labour market. An active labour market policy is required in the long-term. A stronger economy will result in lower unemploiment in the future, but the Social Planning Council has concluded from recent Canadian history that full employment, a job for everyone that wants one, will result only when Canadian society pursues it as an objective.

24. For purposes of monitoring labour market trends and events, it is necessary to have a national perspective that is most relevant to

Canada's educational system, particularly the post-secondary portion. However, it is necessary to develop this perspective in the context of provincial responsibility for education, as well as in the context of considerable expertise at the provincial level in projecting labour market requirements and in designing educational programs to meet these requirements. The overall division of responsibility for the financing of the educational system must be negotiated by the two senior levels of government in the context of their respective overall revenue raising and spending capacities and efforts and responsibilities.

25. One choice for the future is for governments to channel a larger proportion of the educational dollar through students. This choice assumes that students could make better program choices than educational institutions and/or that making larger grants to students might compensate for inter-provincial differences in the adequacy of financing of post-secondary educational institutions. In addition, there is substantial evidence that public support for the educational system would increase if a greater part of the governmental cost is channeled through students. Such a major change of policy would have to take into account different levels of accessibility to the post-secondary educational system and different levels of benefits from it (in financial terms). Canadian policy makers have not had to confront this set of issues in the past because upwards to 80 or more per cent of the funding of post-secondary educational programs has been granted directly to the institutions. The development of such a policy change would therefore require both an intensive and extensive effort on the part of officials at the two senior levels of government, educational institutions and representative student organizations.

26. Regardless of the course that is followed, the fact that about two-thirds of the public funds expended on post-secondary education are spent on career and professional programs must be taken into account. The post secondary educational system is already more heavily career and skills oriented than its detractors would lead the public to believe. And the degree to which the educational system should be oriented to skills

and career training needs to be seriously considered. The future is as likely to require more generalists capable of adaptation as to require technical specialists.

27. The involvement of private companies in education in Canada has been minimal in the past. Numerous problems have resulted from this absence of involvement, not the least of which is a perception on the part of many private entrepreneurs that the educational system is peripheral to their needs and rquirements and that further spending on it is to be discouraged. In the future Canada needs to experiment with ways to blend classroom and on-the-job training, theoretical and practical education. Employers must be drawn into the educational system and planning for it if this result is to be obtained. The Social Planning Council is also on record as favouring a grant-levy system on private companies to pay for retraining redundant workers. The need for a grant/levy system to finance and operate skill training programs emerges because industry has been negligent in the development of on-the-job skill training programs both for new employees and for laid off workers. Although a grant/levy system would improve skill training opportunities, the effects of such a program will be limited without a commitment to an economic strategy that would allow for the long term planning of skill training to meet projected skill needs.

28. Canada's educational system has failed to serve one particular group: youthful school drop-outs. Depending on the province, from 25 to 40 per cent of Canadian youth never complete their secondary education, and this proportion has persisted for at least a decade. Research has shown that these youth incur a disproportionate share of unemployment. Major changes in our educational system to accommodate the needs of these people is required. In addition, major changes to assure that the educational system provides greater opportunities for more Canadians to improve their lot in life are required.

Social Support

29. Canada spends a smaller proportion of its GNP on transfer payments to individuals than any other western industrial nation except the United States in spite of having had the highest ongoing unemployment rate amongst the same nations. The adequacy of existing programs need to be improved.

30. The replacement of the existing categorical programs by a more universal scheme would be welcome. The Canada Assistance Plan has not succeeded in its objective of replacing these categorical provincial assistanceprograms. Additional provincial regulations, implemented largely since 1978, have restricted the eligibility of single parents and employable adults for assistance and/or reduced benefits to categories of recipients by significant amounts. Benefits in some provinces were universally reduced between 1983 and 1984. The threats of these measures to the welfare of poor Canadians parallels the imposition of fees for medical care. The federal government should give renewed consideration to proposals for measures such as the negative income tax.

31. Canada requires income security systems that are better targetted from a strategic point of view towards ameliorating poverty. This does not mean that existing universal programs should be eliminated. Some go with the rights of citizenship in Canada, and the reduction of transfer payments has little bearing on the size of government in any event. The tax system could be used to recapture benefits of universal programs not needed by more affluent Canadians, and such a procedure would likely be a more efficient method of reducing expenditures than the curtailment of universal programs.[8]

32. One class of measures that would do more than any other to eliminate poverty amongst children and families would be improvements in child-related benefits. Such measures might have eased the 30 per cent increase in child poverty that occurred between 1981 and the depth of the

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8. Jonathan Kesselman, "Killing Universality Wrong Way to Fix Deficit," Financial Post (July 7, 1984), p.B-1.

depression in 1982 and would assist the working poor and single parents as well.

33. Another class of measures that would contribute immensely to the amelioration of poverty would be the implementation of at least some of the pension reforms proposed in recent years. The pace at which these are being implemented is too slow. The increase in benefits to elderly Canadians dependent on the Guaranteed Income Supplement of benefit increases in 1984 and projected for 1985 will, when combined with provincial benefits in Ontario, increase total income from 77 per cent of the poverty line to 85 per cent in large urban centres. It should also be acknowledged that implementation of the measures proposed by the Government of Canada in February 1984, as well as those on which the provinces jointly agreed in June 1984, will do very little to extend pension benefits to the 40 to 50 per cent of Canadian workers who currently do not participate in private pension plans. Changes to Canada's pension system that result in additional benefits for those not participating in the private system as well as for those whose benefits are inadequate must remain on the public agenda.

34. Formulation of programs such as those discussed above would be a clear signal to those affected by future economic adjustments that these might not occur entirely at their expense. It would reinforce the notion of social solidarity that would prompt labour to more closely co-operate with business and government in Canada's economic development.

35. Canada's social services and the delivery systems for them are still very much in their infancy. The inability to satisfy the demand for child day care is but one of the most glaring examples of this infancy. Many of our social service programs do not meet their objectives because they are underdeveloped and under funded. Considerable effort and public investment are required to develop these systems. Decisions regarding the mix of delivery by commercial, voluntary and government are required; the results will depend on program objectives. Canada needs to develop a social service delivery system that will combine the more humane and personal delivery of services that the voluntary sector is capable of

providing and the equality of treatment and access and the co-ordination that government is capable of providing. The Government of Canada could initiate this process by commencing to implement proposals regarding the Canada Assistance Plan made by the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements in 1982, notably by working actively with Canadians in developing better social service programs, and by making additional special initiatives in the provision of care for the children of working Canadians.

36. In addition to the above, there is an urgent need to integrate the tax and social support system. In all too many cases they work in opposition to one another. These cases abound. Single elderly pensioners with incomes below the poverty line pay higher income taxes than elderly couples with even more adequate incomes relative to their needs. Elderly persons in Ontario in receipt of both the federal GIS and the provincial GAINS income supplements are taxed 100 per cent on income above the GAINS ceiling. Individuals with higher incomes who are in a position to take advantage of various income tax deductions and credits pay as a class lower rates of tax than individuals with smaller incomes. Individuals in receipt of social assistance suffer serious disincentive to earn funds or go off welfare unless their non-welfare income is significantly greater. Families with incomes below the national average receive fewer child-related benefits than families of average or, often, above average incomes. Women of high income receive greater child care assistance than women of lower income. The Royal Commission needs to undertake a full scale review of the tax system and of the relationship between the income security and income tax systems to bring income taxes into accord with ability to pay.

37. The Social Planning Council favours the introduction of a federal negative income tax to assist in providing adequate incomes to Canadians of low income. Such a scheme would make the income tax system less regressive at low income ranges, provide large numbers of Canadians with adequate incomes and overcome increasingly complex, often punitive, regulations with respect to provincial social assistance, unemployment insurance and so forth.

Resources and the Environment

38. The need for a continued high level of earnings from the export of Canadian resources will continue into the future even if progress is made in dealing with some of the inherent weaknesses in the Canadian economy, such as greater development of manufacturing industries. Some Canadians have argued for decades that federal and provincial governments should work harder in developing further processing of these resources within Canada. Recent research has also indicated that the tendency of the Canadian resource industry to purchase equipment abroad provides a major opportunity for improving a grossly underdeveloped sector of Canadian manufacturing.

39. The Social Planning Council recommends as well that the Commission increase its efforts with respect to protecting the environment in resource exploitation and developing renewable resources over and above non-renewable resources. The development of renewable resources, in addition, often results in more jobs for Canadians.

40. The heavy financing requirements for resource development, development of further processing facilities and investments in projects that simultaneously protect the environment often recommend government sharing in the cost of these projects. Government should not shy away from these investments, but should assure itself that it receives a compensating share of revenues from the resources exploited and that environmental quality is not sacrificed.

Intergovernmental Relations and the Economic Union

41. The division of responsibility between the two senior levels of government for Canada's social support and health and educational systems can not be easily divided. Each level has spending responsibilities, as well as access to the same revenues, although it can be argued that the federal level has additional responsibilities owing to the influence it exercises over levels of economic activity and its special responsibilities

for unemployment insurance, pensions and job training. Both senior levels of government must be involved in decisions regarding the character and cost of social programs. Unilateral actions are not possible to the extent that they almost always have implications for the other level of government, although it must also be recognized that unanimity amongst eleven senior governments is not a prerequisite to decision-making, only to non-decision-making.

42. Municipal governments need to play a greater role in the government of the country and in decision-making with respect to those services for which they are responsible for delivery. Only in this way can they prevent the burden for paying for these services from falling on the most regressive tax source, real property taxes, which is the major tax source for municipalities.

43. Municipalities should be allowed to carry out economic development and job creation programs as long as the results of these activities do not contribute to increased balkanization of Canadian economic development endeavours. Municipalities should also be authorized to engage in entrepreneurial activities. The fact that municipalities spend 25 per cent more than the federal government on purchasing goods and services is another reason to grant municipalities more room for independent action.

44. Federal-provincial relations need to be more open to public and legislative scrutiny. Closed governments tend to make poorer decisions than open governments. This maxim is especially true in the case of government enterprises, whose public accountability must be improved if the whole notion of government enterprises and government participation in economic development and investment is to remain viable.

Towards Social Solidarity

45. An underlying premise of these recommendations is that Canadian society will function more dynamically , efficiently and to the benefit of the majority of Canadians if it is based on the principle of "social solidarity". A commitment to social solidarity presupposes that we are all mutually dependent on each other, and that rather than helping the invisible hand, individual self-interest and egoism often block the achievement of collective welfare.

46. Solidarity means that basic human needs have an equal claim on the national wealth, and that we are all obligated to pay the necessary costs that such a mutually shared responsibility requires. Politically, social solidarity is the key to the welfare state's broad popular support. It is not the level of public spending that receives the sharpest conservative attack, but the notion of social citizenship. Universalism in social policy manufactures its own universal political constituency, which in turn helps maintain a basic sense of shared responsibility. All citizens are granted identical rights and treatment. Universalism is an attack on both the stigmatizing nature of poor relief and on the self-reliance mechanism of private insurance. To win broad political support universal social programs must be generous, of very high quality and available to all.

47. In a society based primarily, if not solely, on individual initiative workers are compelled to seek security through individual wages and wage gains and through protectionist measures. Workers will resist innovation because it results in layoffs or wage cuts. But if society shelters workers against the risks of change, there is no reason why workers should not welcome innovation. Comprehensive income security may improve productivity, make bad jobs into good ones and boost economic growth.

48. Ultimately, the reconciliation of collective welfare and economic efficiency requires increased democratic control of investment

in productive jobs.

49. The economic reforms proposed above are aimed at encouraging both a more productive and egalitarian society. By providing a basic level of human dignity, security and opportunities for productive participation for all, especially the disadvantaged, and through facilitating involvement in economic decision-making, each person's capacity to express, realize and contribute their own potential is enhanced. It is our belief that a society which is enlivened by and capitalizes on the talents and contributions of as many of its members as possible will be one that is most capable of further enriching the democratic social and material structures undoubtly desired by Canadians.

POOR

QUALITY

ORIGINAL